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VIA AIR POUCH

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Subject: Unclassified Materials on Postponement of Soviet Credits to Yugoslavia

The attached unclassified materials, prepared in the Department of State, are forwarded for your information and possible use.

Posts are reminded that the U. S. does not consider it productive that the Soviet action against Yugoslavia should be overtly exploited or that any form of campaign should be mounted to publicize the current differences between the Soviet Union and Yugoslavia. It is believed, however, that the attached material may prove useful as background for private conversation with selected nationals and for other discreet dissemination, to illustrate the dangers of political involvement in credit or trade arrangements with the bloc. USIS personnel may wish to consider the phrase "strings without aid" as a talking point.

Should local conditions indicate desirability of dissemination of the attached materials as such, this should be done without attribution of any sort and prior consultation with the [redacted] should be arranged.

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Attachment:

Soviet Aid to Yugoslavia (UNCLASSIFIED)

State Dept. declassification & release instructions on file

Drafted by: IOP/S:PATurner:rab 8/15/58 Clearances:	Transmission and classification approved by: IOP - Mr. Stephens
IAE/X - Mr. Kaplan (in draft)	STATE:EUR/P - Mr. Fleischer (in subs.)
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SOVIET AID TO YUGOSLAVIA

1945-1948. In the period after World War II until 1948, Yugoslavia maintained close economic and trade relations with the USSR and the countries of the Soviet bloc in Eastern Europe. During the period Yugoslavia contracted investment credits with the bloc totaling \$375 million, although only \$23.7 million was actually utilized prior to the Cominform break. Yugoslavia was also a creditor, granting credits totaling \$100 million (of which \$40 million had been used prior to the break) to Albania, as well as credits in lesser amounts to other bloc countries. Yugoslavia also enjoyed substantial foreign exchange earnings from bloc transit (through the port of Rijeka) and tourist traffic in this period.

Cominform Blockade. Following Yugoslavia's expulsion from the Cominform in June 1948, trade fell off sharply in the first few months of 1949, with the bloc countries failing to fulfill their contractual obligations, according to the Yugoslavs. All trade between Yugoslavia and the Soviet bloc ceased in mid-1949.

The blow dealt to the Yugoslav Five-Year Plan by the rupture was severe; the Yugoslavs at that time were dependent on the bloc (chiefly the USSR and Czechoslovakia) for most of their fuel imports, about four-fifths of their fertilizer and pig iron imports, and extensive quantities of rolling stock and other equipment. In 1949 the value of Yugoslav exports fell by one-third.

Post-Stalin Rapprochement. After the death of Stalin in 1953 the new Soviet leadership set about repairing economic relationships with Yugoslavia. The trade embargo imposed by Stalin in an attempt to bring Yugoslavia to heel was lifted, and trade resumed at the end of 1954 on the basis of barter agreements.

Bulganin and

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Bulganin and Khrushchev's June 1955 visit to Belgrade, designed to patch up political relations, also accelerated the economic rapprochement. During 1955 regular trade and payments agreements were concluded with most Soviet-bloc countries and settlements were made of mutual financing claims dating back to the Cominform period. In September 1955 an agreement in principle was reached by which the Soviet Union agreed to extend long-term, low-interest credits to Yugoslavia. In early 1956 Yugoslavia signed implementing protocols with the USSR under this agreement and received additional credits from Poland, Czechoslovakia and East Germany.

Since early 1956 the Soviet bloc has agreed to provide Yugoslavia with credits amounting to \$464 million, of which \$299 million is to be furnished by the Soviet Union. The Soviet credit includes a \$110 million line of credit for the purchase of industrial equipment; a \$54 million credit for the purchase of raw materials, including agricultural products; and a joint credit with East Germany of \$175 million for the construction of an aluminum combine. Czechoslovakia has granted Yugoslavia two credits: a \$25 million credit for consumer goods, and a \$50 million credit for capital goods. Poland has extended a \$20 million credit for the purchase of rolling stock and industrial equipment. All these credits bear 2 percent interest and have a 10-year repayment period. At the beginning of 1958 less than half of these credits had been utilized.

Yugoslavia has recently revised its planning policy to give increased emphasis to investments in agriculture and export industries and the Yugoslav leaders have stated that large industrial projects will in the future be financed mainly from foreign credits. Thus, Soviet-bloc assistance has been primarily utilized for large-scale projects such as an aluminum combine in Montenegro to be financed from the joint Soviet-East German \$175 million credit, a fertilizer factory in Pancevo,

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and a lignite mining combine in the Kosovo-Metohija region to be financed under the \$110 million Soviet investment credit. Soviet credits have also aided agriculture -- large amounts of Soviet wheat were shipped in the fall of 1956 under the \$54 million credit and land reclamation machinery has been delivered under the \$110 million investment credit.

First "Postponement." Yugoslavia was able to utilize only a portion of the Soviet credits, including the entire \$30 million gold and hard currency credit, during 1956, but worsening political relations between Belgrade and Moscow following the Hungarian revolt in November of that year brought deliveries under these credits to a standstill. On February 26, 1957 the Yugoslav Foreign Minister complained publicly that the Soviet Union was making "unacceptable" demands for postponement of deliveries under the credits granted a year before. Apparently the major items involved were deliveries for the aluminum project, which the Soviet Union wished to postpone until 1961 or 1962, when the Yugoslavs, under the original agreement, had hoped to have the first stage of the project in operation. Moscow reportedly also withheld deliveries for power plants and two fertilizer factories scheduled under the \$110 million investment credit. Soviet stalling on the developmental credits provoked much bitterness in Yugoslavia where it was interpreted as political pressure.

The improvement in political relations between Yugoslavia and the Soviet Union in mid-1957 led to an agreement fixing new schedules for delivery of capital equipment under the \$175 million aluminum credit. According to the new schedule the aluminum combine would be completed by 1964 -- a stretchout of 2-3 years from the original 1956 agreement. Agreement was also reached for programming under the \$110 million investment credit and work begun on a fertilizer factory with an annual capacity of 360,000 tons and a lignite mining combine (including thermal power station).

Under the terms

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Under the terms of a protocol of January 28, 1956 the Soviet Union had promised to supply a nuclear reactor for a Yugoslav atomic research center; a protocol was signed on February 2, 1957 confirming this agreement. The Soviet Union has apparently also delayed shipping the reactor and it had not yet been delivered by the end of 1957.

Second "Postponement." Yugoslav-Soviet relations again became strained in November 1957 when the Yugoslavs refused to sign the Moscow Declaration of the 12 Communist Parties, and their differences broke out into open dispute at the time of the Yugoslav Communist Party Congress in April 1958. On May 9, 1958 in writing of these differences, "Pravda" threatened:

"The framers of the draft program of the Yugoslav Union of Communists flagrantly distorted the nature of the relations linking socialist countries, accused them in an unfriendly and even slanderous way of a desire for hegemony. They claimed that in the initial stages of the development of socialism in individual nations or states there exists a possibility of utilizing economic aid for exploitation of other countries in one form or another. Do certain persons in Yugoslavia feel that this tendency of exploitation also exists in economic relations between the Soviet Union and Yugoslavia? If this is so, it would be possible to free Yugoslavia from such exploitation."

On May 27, 1958 the Soviets made good on this threat when Foreign Minister Gromyko formally advised the Yugoslav Ambassador that the Soviet Government was unilaterally "postponing" the \$110 million equipment credit and the \$175 million aluminum credit for a period of five years. This was tantamount to cancellation of the two credits. The Yugoslavs were advised that the Soviet reply also covered the East German part of the agreement

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agreement, although in 1957 Yugoslavia established diplomatic relations with East Germany.

The Yugoslav press reacted sharply to this Soviet pressure, and on June 1, 1958 "Politika" wrote:

"Of course the Soviet leaders know very well how harmful this step is and how unpopular it is with world public opinion, and that is why they are trying to dim the actual reasons for cancelling the credits ... But this is not the point. The previous indications of the Moscow "Pravda," its threats on the cancellation of the credits point to the true nature of the postponement of the aforementioned agreements -- as a part of the campaign of pressure upon our country. By the way, if it is a question of economic needs of the USSR as a motive for the cancellation of the credits, why hasn't the Soviet Government cancelled similar credits to other countries, instead of offering them new ones? Besides, haven't these same credits already been cancelled once by the Soviets -- once before at the time when there were differences between the USSR and Yugoslavia, at the time following the events in Hungary, at a time when Yugoslavia did not want to desist from her policy.

"The Soviet press, which gladly stresses that the USSR, in contradistinction to capitalist countries, gives assistance and credits without political conditions, will now hardly be able to prove such a USSR attitude successfully to the world. Because the cancellation of the credits shows that they were offered to socialist Yugoslavia with the hope that definite political purposes would be achieved, and when it was

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proven that Yugoslavia did not want to adopt stands imposed on her because she considered them incorrect, that she did not want to join the camp but wanted to remain independent, the USSR all of a sudden concluded that it no longer pays to give credits to socialist Yugoslavia.

Khrushchev on Capitalist Credits to Communists

In an address to the Bulgarian Communist Party on June 4, 1958 Soviet Premier Khrushchev attacked the Yugoslavs for accepting American aid asking:

"Why do the imperialist bosses, while striving to obliterate the socialist states from the face of the earth and crush the communist movement, at the same time finance one of the socialist countries, granting that country credits and free gifts? ... Everyone knows the imperialists never give money to anyone without a purpose, just for the sake of their 'beautiful eyes.' They invest their capital in those enterprises from which they hope to receive good profit ... Relying on such allies, the aggressive circles of the bourgeois are indeed able to evoke certain hopes and to rejoice that their attempts to disrupt the socialist states from within appear to be successful."

[Two days before, Khrushchev had addressed a letter to President Eisenhower proposing increased US-Soviet trade based on extensive American credits to the Soviet Union.]

Indian Press Comments:

Soviet cancellation of aid to Yugoslavia for political reasons has brought forth a spate of comments in the Indian press about the

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about the lesson this action has for under-developed, neutral nations.

The "Free Press Journal" of Bombay: "What Khrushchev and others did not take into consideration in the midst of this fervent demonstration of communist unity and strength (primarily meant for Western consumption) is the possibility of repercussions elsewhere, in the uncommitted countries, for example. The 'suspension' of the 100 million pounds sterling Soviet credit to Yugoslavia following the rift, must raise certain questions in these countries about the purpose of Soviet foreign aid. Mr. Khrushchev said in Sofia, 'Why do the imperialist bosses, striving to wipe the socialist states from the face of the earth and to stifle the Communist movement, at the same time finance one of the socialist countries, give them advantageous credits and free presents?' With minor substitution of phrases, the question must stagger even Khrushchev. Why is the Soviet Union anxious to aid the uncommitted countries? The 'strings,' we are afraid, are out of the bag."

The "Times of India": "Much has been said of the American tendency to qualify foreign aid with political 'strings' and not enough of the manner in which Soviet 'credit agreements' are similarly burdened with a variety of conditions. Yugoslavia, for example, has realized rather belatedly that an agreement with the Soviet Union -- duly signed and sealed -- for \$285 million in credits will hold good only to the extent that Belgrade is ideologically acceptable. The latest Soviet note on this subject speaks of a 'postponement,' but it is obvious enough from Mr. Khrushchev's diatribe against President Tito that there is no intention at all

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of advancing credits to a Communist country which does not acknowledge the fact of Soviet leadership.... If the Western Powers are inclined to aid Yugoslavia, it is not because Belgrade is any the less Communist but because co-existence is possible only with such Communist states as are courageous enough to reject the bloc system and the cold war to which it leads."

The "Hindustan Times" editorial headed "Betrayal:" "Russia now seems bent on the pulling invisible strings of economic aid to realize her political ambitions in Yugoslavia....

"That a neutral country like Yugoslavia has thus been thwarted is bound to have its repercussions in other countries similarly placed. It is a warning to them that Soviet aid carries political strings."

The "Lucknow National Herald": "It was expected that there was a better understanding of the operation of social dynamics in the Soviet bloc of countries than among capitalist countries, and the Soviet action, following the recent controversy over the program of the Yugoslav League of Communists, is bound to cause misgivings among friends of the Soviet Union and among those who have believed in cooperation between socialist countries within the framework of cooperation between all nations. The Soviet Union has laid itself open to the charge that the aid it extends to countries will not always be without strings ..."

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